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MEMORANDUM

DATE: Tuesday, February 24, 2015 (Updated May 22, 2015)

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brian F. Baker
Zions Bank Public Finance

RE: Utah Charter Academies

The purpose of this report is to document Utah Charter Academies' ("UCA," or the "School") adherence to the eligibility standards created for participation in the Utah Charter School Credit Enhancement Program (the "Program"). The analysis contained herein is based on UCA's full application to the State Charter School Finance Authority (the "Authority"), an amended application submitted May 19, 2015, many subsequent meetings and conversations with the School's finance team, as well as additional information and documents submitted in response to follow up requests by the Authority.

The School has provided all information requested subsequent to the submission of the initial application. All questions have been answered to my satisfaction, and seemingly, to the satisfaction of the Authority, since we have had a number of follow up meetings related to the specific details of this financing.

This report will examine each category of the Program's "Standards for Participation," including Basic Eligibility, Enrollment/Student Demand, Academic Performance, Management, Financial Performance, and Bond Documents. In each of these categories, the School met the basic eligibility requirements for participation in the Program, as detailed below. This report should be examined in direct conjunction with the Letter of Certification for Utah Charter Academies from the State Charter School Board ("SCSB Letter"), which provides detailed analysis and historical information on Enrollment/Student Demand, and Academic Performance.

Utah Charter Academies—Introduction

UCA is a network of four charter school campuses in the Salt Lake area operating under the names "American Preparatory Academy of":
(1) Draper 1 [K-6, opened 2003];
(2) School for New Americans [K-9, opened 2009];
(3) Accelerated School [K-12, opened 2011], and
(4) Draper 2 [K-8, opened 2013 & 9-11, opened 2014].

The charter schools are located in Draper, Utah (Draper 1 and Draper 2) and West Valley, Utah (School for New Americans and Accelerated School). UCA's facilities are currently held by three special purpose entity building corporations: UCA Properties I, UCA Properties II, and UCA Properties III. UCA Properties I was formed in conjunction with the School for New Americans and is not a party to the series 2015 transaction. UCA Properties II was formed in conjunction with the Accelerated School and will be a party to the series 2015 transaction. UCA Properties III was formed during the acquisition of Draper 1 and construction of Draper 2. Management plans to collapse UCA Properties III and hold the associated facilities under UCA.

The UCA schools are operated under one charter issued by the Utah State Board of Education. Each campus has its own enrollment cap, and the current total enrollment cap is 3,495, and each campus is at or above its cap for the 2014-2015 school year. Demand is strong, with a waiting list of over 5,000 students, which indicates future growth (not needed for this financing) should not be a problem.

UCA's focus and mission has remained constant from its original charter application. The School's mission statement reads:

> *Our school's mission is to ensure each student achieves maximum academic success by teaching skills to mastery levels, imparting valuable knowledge, transmitting the common culture that binds us as a nation, and exposing children to supreme examples of artistic and intellectual achievement.*

The School plans to issue just over $32 million in revenue bonds to refinance several outstanding obligations and generate approximately $1.8 million in new funding for classroom space and multi-purpose room space at the West Valley 2 campus, as well as $1.645 million for land acquisition adjacent to the Draper 2 campus

Basic Eligibility

1. UCA's 2015 bonds will be issued through the Authority. However, UCA also has other bonds and financings that were not issued with credit enhancement program backing, and which are not being refinanced at this time. This presents legal questions relative to the Authority's standing relative to other lenders in the event of default on these or other UCA financings. Ryan Warburton from Ballard Spahr has prepared a

summary of changes necessary to standard legal document language that are necessary, in their opinion, to sufficiently ensure the Authority's primacy in default and any issues pertaining thereunto. The Authority and UCA have held various meetings relative to the important issues of collateral position and lien standing on each piece of real estate and each set of revenues. The Authority outlined conditions needed in order to consider moving forward with the credit enhancement application, and the responses from Goldman Sachs (as the other lien holder) have been encouraging enough to merit further consideration of the UCA application.

2. The SCSB Letter indicates that UCA is in generally good standing with the State Charter School Board. While deemed Unsatisfactory for revenue and expenditure forecasting, the School has submitted a response formally explaining the reasoning for the misses (generally being over-conservative on revenues, which then also are spent when received), and we are comfortable that they are currently budgeting in a manner to meet this standard on an ongoing basis.

3. The School has obtained an investment grade rating of "BBB-" from Standard & Poor's ("S&P"). Key credit concerns from the private rating report are listed below, followed by Zions' response to these concerns :
    a. Only adequate liquidity for the rating, at 57 days' cash on hand—this is a concern the School is working to address.
    b. Refinance risk associated with bullet payments which will require accessing the market again in the next five years—market access should not be an issue for UCA.
    c. Reliance on a dynamic founder who serves as executive director through a charter management company and is increasingly involved with the management of other charter schools—UCA points to its dynamic board and succession plan, and the fact their "dynamic founder" is fully engaged.

S&P also cites the following as positive credit factors that offset the above-listed weaknesses:

a. Large enrollment base and strong demand, with enrollment nearly doubling in the past three years. Strong wait list.
b. Good pro forma MADS coverage and moderate pro forma lease adjusted MADS burden for fiscal 2014, at 1.4x and 12.1% of fiscal 2014 expenses.
c. Strong operating history with full accrual surpluses for the past three years.
d. Charter evergreen status.

4. Utah Charter Academies has been in operation for over a decade (first school opened in 2004). Financial operating history, as demonstrated by past audited financials, cash position, and increasing unrestricted fund balance, is strong.

5. The School has a defined and specific mission. UCA's mission statement says:

UCA is a classical, liberal-arts school dedicated to providing an orderly, safe and nurturing learning environment wherein content-rich, efficient curriculum and research-based instructional methodologies are utilized to ensure that every student achieves academic success and develops good character based on concrete measurements.

6. UCA has previously borrowed funds through tax-advantaged bond issuances in connection with its West Valley 2 (The Accelerated School) and West Valley 1 (School for New Americans) campuses. In 2010, the Authority issued $8,017,250 of Qualified School Construction Bonds on behalf of UCA, the proceeds of which were used to make a loan into an $11.3 million new markets tax credit financing for the West Valley 2 campus. In 2011, UCA entered into an $8.1 million new market tax credit financing that is secured by the revenues and mortgage on real estate of West Valley 2. UCA is not in default under any of the transaction documents related to those financings.

Enrollment/Student Demand

7. As of October 1, 2014, UCA had 3,499 students enrolled at its four campuses: Draper 1 - 575; Draper 2 - 1,030, West Valley 1 - 572; West Valley 2 – 1,322.

8. Enrollment at UCA has increased steadily since operations began in 2004. Between 2010 and 2014 the school operated close to or above its enrollment cap. There has never been a drop in student enrollment of more than 5 students (on a current base of almost 3,500. Table 1 from the SCSB Letter includes detailed enrollment history back to 2005.

9. Utah Charter Academies exceeds the re-enrollment standard established by the SCSB in each of the past three years. This is true in aggregate and for each of the four campuses individually. UCA's most recent total re-enrollment rates are provided below. All campuses are above the 80% threshold:

Campus	Reenrollment
Draper 1	88.2%
Draper 2	86.8%
West Valley 1 (The Accelerated School)	92.2%
West Valley 2 (School for New Americans)	86.6%

Table 2 from the SCSB Letter details historical enrollment and re-enrollment.

10. The School exceeds the ADM rate requirement. Over the last three years, UCA's Average Daily Membership rate has been 97.7%, 96.6%, and 97.0%.

11. The School has provided wait list statistics by grade, and has provided the detailed waiting list that includes descriptive and personal information on potential students to the Deputy State Treasurer. The waiting list from the application includes 5,439 potential students trying for admission in the 2014-2015 academic year. The waiting list is strong and includes a satisfactory amount of students for most grade levels offered at each campus, although numbers are smaller for the middle school grades. The following table prepared by UCA shows the exact numbers.

2014-15 Waitlist and Applications
(as of October 1, 2014)

Draper 1	**K**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**Total**
Waitlist	510	307	211	119	116	0	0							1,263
Applications	611	313	215	185	155	112	97							1,688
Draper 2														
Waitlist	321	255	212	229	167	171	135	0	0	0				1,490
Applications	617	304	238	209	190	143	125	130	63	46	20			2,085
West Valley 2														
Waitlist	341	276	229	170	156	143	175	74	0	0	46	25	10	1,645
Applications	585	270	235	192	163	151	132	179	111	76	70	32	10	2,206
West Valley 1														
Waitlist	174	158	125	112	123	107	123	119	0	0				1,041
Applications	372	159	139	91	90	82	69	71	42	23				1,138
Total Waitlist														5,439
2014-15 Enrollment														3,499

The table on the following page shows the historical re-enrollment statistics for each campus.

HISTORICAL RE-ENROLLMENT % BY GRADE			
Grade	**From 2011-12 to 2012-13**	**From 2012-13 to 2013-14***	**From 2013-14 to 2014-15**
DRAPER 1*			
Grade 1	93	26	92
Grade 2	91	23	93
Grade 3	88	30	91
Grade 4	91	27	90
Grade 5	89	28	89
Grade 6	86	8	84
Grade 7	81	--	--
Grade 8	86	--	--
Grade 9	79	--	--
DRAPER 2			
Grade 1			89
Grade 2			93
Grade 3			89
Grade 4			89
Grade 5			85
Grade 6			84
Grade 7			73
Grade 8			74
Grade 9			79
Grade 10			69
WEST VALLEY 2			
Grade 1	89	91	94
Grade 2	90	91	89
Grade 3	82	89	88
Grade 4	83	92	90
Grade 5	77	88	88
Grade 6	72	83	89
Grade 7	51	74	83
Grade 8	79	82	76
Grade 9	51	70	74
Grade 10	74	79	76
Grade 11	--	62	73
Grade 12	--	98	85
WEST VALLEY 1			
Grade 1	55	82	93
Grade 2	58	79	92
Grade 3	53	61	86
Grade 4	44	75	82
Grade 5	60	64	88
Grade 6	67	68	83
Grade 7	50	72	66
Grade 8	54	56	91
Grade 9	67	22	93

* The low retention rates from 2012-13 to 2013-14 at Draper 1 were a result of the construction of the Draper 2 campus. Approximately 76% of Draper 1's student population transferred to the Draper 2 campus in the 2012-13 school year.

Academic Performance

12. The SCSB Letter indicates that the School meets required academic standards. Table 3 from the SCSB Letter provides a breakdown of Utah Charter Academies' performance relative to other schools. The School has been approximately on par with the charter medians.

Management

13. The School has adopted management policies and practices that guide financial, debt, and risk management. The Board has also adopted an acceptable Succession Plan as well as a Financial and Risk Management Plan, including post-issuance compliance.

14. UCA has a diverse and stable Board that brings a balanced perspective to the organization. The Board currently consists of individuals possessing legal, accounting and education expertise; as well as substantial experience with science, business, computers, sales, business management and government.

15. UCA employs American Preparatory Schools, Inc. ("APS") as the school's management company. APS coordinates certain management and administrative duties including providing bookkeeping services and ensuring accurate and timely financial reporting, preparing the annual budget, and soliciting grants and other available funds for UCA when available, among other duties. APS manages all of the UCA campuses.

16. UCA's historical budgeted revenues and expenditures generally demonstrate "reasonable proficiency" in forecasting. The SCSB letter includes a breakdown of adherence to budgeted revenues and expenses.

Financial Performance

The School meets all of the current requirements for the Financial Performance section of the application, although it should be pointed out that financial metrics look weak historically due to the high growth in enrollment the School has seen in the last three years.

17. Projections used by the School in financial forecasting appear reasonable. UCA seems positioned to continue and improve its healthy financial standing of the past. UCA revenues are forecasted to grow at a similar rate to expenses. Importantly, the School is not reliant on new growth to be able to meet debt covenants and ratios or maintain healthy financial reserves.

18. Debt Coverage Ratio

Requirement	Measure	Sufficient?
At least 105%	137%	Yes

Debt coverage ratio is calculated by dividing total revenues available for debt service by the maximum annual debt service payment anticipated for the new bonds. Revenues available for debt service is calculated by taking 2014 net income from operations of $993,283 and adding back depreciation expense of $450,480, interest expense of $243,939, and lease payments of $2,267,099. This leaves net revenues available for debt service of $3,954,801. When this number is divided by maximum annual debt service of $2,894,520, the coverage is 137%.

Coverage prior to 2014 would fall below 100%, but this is mainly due to comparisons of revenues for a smaller student population. UCA has a total of 3,425 students in 2014, versus 2,322 in 2013 and 1,860 in 2012. This means the school size was 32% smaller in 2013 and 45% smaller in 2012. The School did actually have over 140% coverage both those years on actual lease and bond payment obligations.

	2014	2013	2012
Net Income Available for Debt Service	$3,954,801	$2,548,831	$2,340,980
Maximum Annual Debt Service	2,894,520	2,894,520	2,894,520
Debt Coverage Ratio	137%	88%	81%

19. Debt Burden Ratio

Requirement	Measure	Sufficient?
Less than 20%	11.8%	Yes

The debt burden ratio requirement is based on the level of the School's fund balance, which we calculate at 11.4% (cash of $2,441,369 divided by total operating expenses net of depreciation of $21,421,751). Debt burden ratio is calculated as maximum annual debt service ($2,894,520) divided by unrestricted operating revenues ($22,865,514), taken from 2014 financial statements.

	2014	2013	2012
Maximum Annual Debt Service	$2,894,520	$2,894,520	$2,894,520
Unrestricted Operating Revenues	22,865,514	15,180,642	12,122,706
Debt Burden Ratio	12.7%	19.1%	23.9%

It should be pointed out that UCA had a debt burden based on their actual lease and debt expense in 2013 of 10.5% and in 2012 of 13.8%.

20. Operating Margin

Requirement	Measure	Sufficient?
At least 9%	17.3%	Yes

UCA's operating margin requirement of 9% or greater is based on the calculation for days cash on hand (calculated as cash divided by operating expenses multiplied by 365) of 41 days and a Fund Balance Ratio of 11.4%. Operating margin of 17.3% is calculated by dividing net income available for debt service of $3,954,801 (see calculation under Debt Coverage Ratio) by total revenues of $22,865,514.

	2014	2013	2012
Net Income Available for Debt Service	$3,954,801	$2,548,831	$2,340,980
Revenues	22,865,514	15,180,642	12,122,706
Operating Margin	17.3%	16.8%	19.3%

21. Current Ratio

Requirement	Measure	Sufficient?
At least 150%	170%	Yes

The current ratio is defined as current unrestricted assets ($3,063,654 for 2014) divided by current liabilities ($1,800,515). The School has exceeded a 150% current ratio each of the last three years.

Utah Charter Academies	2014	2013	2012
Current Assets	$3,063,654	2,080,139	1,463,329
Current Liabilities	1,800,515	1,224,040	883,523
Current Ratio	170%	170%	166%

Bond Documents

20-23. UCA's legal bond documents have been reviewed by Chapman and Cutler in their capacity as bond counsel to the Authority, and all requirements have been incorporated. In addition, Ballard Spahr, as bond counsel to Utah Charter Academies, has confirmed that each of the required legal provisions is present in the bond documents.